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THE ELEMENT OF MONOPOLY IN PRICES.

In the theory of price two terms are in constant use,— cost of production, and expenses of production. The former, though used with ambiguity by Adam Smith, Ricardo, and Mill, is now generally understood to mean the aggregate of those efforts and sacrifices required for making a piece of wealth: the latter implies the money payment necessary to evoke these various efforts and sacrifices. But there is one important fact implied in the passage from cost to expenses of production, the full significance of which is not yet generally recognized. Though cost is a singular noun and expenses plural, the cost of production of a commodity in its commonly accepted meaning, is not presented to us as a single sum, but as so much of this kind of effort, so much of that, so much of the other; while the expenses of production show them expressed in terms of a single commodity, money, reduced to unity. Now, how is this reduction to unity effected? It must

imply a common property in all kinds of effort and sacrifice that are included in cost of production, which can be measured and expressed in terms of money. That is to say, the cost of production which takes into consideration so much of this, that, or the other quality of effort or sacrifice, is not the final possible analysis. Most modern economists reject the abstract conception of "common labor" suggested, though not consistently adhered to, by Ricardo, and adopted by Marx and other socialist writers, as the starting-point of economic analysis. But it seems clear that the reduction of a bundle of heterogeneous efforts and sacrifices to a unity expressed in money, absolutely requires some such common quality, whether of time, productivity, suffering, or an amalgam of these. The measurement is done, and it can only be effected, by reference to some common or abstract quality, which may be called by the name "common labor" as well as by any other, if the term be used in its wide sense, and if capital be regarded, as Ricardo regarded it, as "accumulated labor." This abstract thing, whatever it be called, must be held to lie at the back of cost of production. Nor is it an empty abstraction. It is eminently practical, for we see that it is the real common measure by which "cost" is converted into "expenses" of production. Unqualified or "common" labor may seem impalpable and immeasurable, but it is not really so.

The power of competition to measure and estimate that which has no separate existence, and cannot be conceived apart from other qualities, has often excited wonder. Take, for example, that part of the value of a town house which consists in its proximity to a park or other appreciable public convenience. The size and money value of this advantage in its various degrees as a separate entity admit of no clear grasp or appreciation. Wherever it is found, it is linked with and qualified by innumerable other conditions of house property. Yet we know that competi-

tion estimates so precisely this value, which no individual householder could put a price upon, that, if we took a map and measured distances from the park, we should find a smooth and exact gradation of diminishing prices for the same quality of house as we increased the distance from this value-giving centre. So it will be found that common labor, though in its concrete embodiment it may be always qualified, is capable of quantitative measurement and stands as a basis of natural, or normal, price.

This truth has only failed of general recognition because of the ambiguity which has surrounded a certain term which, belonging to the agent of economic change, is of the first importance in political economy,—free competition. In a state of free competition quantity of effort is the only criterion of value. This abstract "common labor" alone counts; differences of quality or skill have no place in affecting terms of exchange. A clear recognition of this truth is the first requirement in building up a theory of exchange. The following proof will suffice. First, take a case where there is no direct competition, a society of two persons, A and B, A producing a prime necessary, corn, B producing an article of comfort, clothes. What will be the terms of exchange? Assume that A can produce corn only, but can by extended labor produce at least enough to satisfy his own wants and those of B, while B can produce clothes only, but can produce enough for both. Here quantity of labor will be no determinant of rate of exchange. The greater need of B for corn than A for clothes will enable A to obtain the whole of B's possible production of clothes in return for as much corn as will keep B alive and in working order. In a word, B will practically be the slave of A. Now introduce a second A, who shall compete with the first A, so as to yield two competing A's and one B as before. In this society, though the need of B for corn still continues greater than that of A for clothes, the need of B for the particular corn

which belongs either to A or to A^1 is not so great as that of either A or A^1 for clothes. B, by making the two A's bid against each other, will be able to get from one or the other all his corn, except what is required to keep him alive, in return for the minimum quantity of clothes.

Now introduce a second B. You have now a competitive society of two competing A's and two competing B's, each capable of producing an indefinitely large quantity of his special product by increased effort. If each is assured of the ability and willingness of the others to compete, although it will be more urgent for a B to get corn than for an A to get clothes, it will not be more urgent for B to get a particular portion of corn belonging to A^1 than it will be for A to get a particular piece of clothing belonging to B^1. The effect of free competition has been to eliminate the advantage which previously belonged to the holder of one or the other of the two commodities. The products of A and B will now exchange on equal terms according to amount of effort; that is, the extra effort necessary for A to produce enough corn for B will be precisely equal to the extra effort for B to produce clothes for A. Agreeability or disagreeability of the kind of work will count, as affecting the quantity of effort, but difference in quality or skill of work would have no economic force to affect the rate of exchange. Taking mankind as a whole, it might be twice as difficult to find agriculturists of the ability of A and A^1 as to find tailors of the ability of B and B^1; but such differences would count for nothing in the small competitive community of which this formed part.

If it were necessary to use capital — that is, to accumulate labor — in this primitive competitive society, it is easy to see that the sacrifice of waiting, whether it be reckoned as positive or negative effort, would be added to the original labor, receiving from competition an exact value in terms of general human effort or sacrifice, and that,

though labor deliberately bestowed on objects the exchange of which was of necessity postponed would appear to have an advantage in exchange over labor bestowed on objects designed for immediate consumption, that advantage would only measure the sacrifice of waiting added to the original effort of labor. In other words, the sacrifice of waiting would be reduced to a common denominator with other forms of effort. That common denominator may be termed general labor.

From consideration of the foregoing argument we reach the following conclusions: —

1. Free competition is only effective in determining value in the case of commodities where each purchaser or bargainer has, and knows that he has, the choice of at least two commodities competing on equal terms.

2. Commodities of different kinds offered under terms of free competition exchange according to quantity of common labor, which quantity measures cost of production.

The practical bearing of these conclusions may be indicated by the two following corollaries: (*a*) Differences of skill or quality of labor, which do not imply differences of intensity or pain of effort, have no inherent power to affect value or exchange-rate. (*b*) Utility, though a condition of value, has no effect in a state of free competition as a determinant of quantity of value.

Since in every existing community both quality of labor and utility do exert an actual influence in determining value and prices of commodities, it is important to trace the social causes to which these influences are due. First, let us deal with corollary *a*, which seems at variance with the known fact that higher or rarer skill, as distinct from greater effort, does everywhere enable its owner to get a higher price for his labor, and, imbedded in commodities, gives them a high value.

If in any society there continued to be in every point of

it free competition,—*i.e.*, if there were security to every would-be buyer that there would be two genuinely competing persons with equal facilities and willing to deal,—all exchange would take place in strict accord with quantity of labor. Assuming that an hour's work of a doctor represented no more actual effort to him than an hour's work of an ordinary day laborer represented to him, the two would be paid at the same rate if it were equally easy for a would-be purchaser of "healing" to find two genuinely competing doctors as for a would-be purchaser of day labor to find two competing laborers. It is not because the doctor's labor is more highly skilled that he gets the higher wages, but because this skill (assisted in the case of medicine by special artificial circumstances) renders it less probable that he will, in respect to each particular sale of his skill, be obliged to compete on equal terms with another doctor. If any society were to establish free education in every grade, with special bounties for the encouragement of professional training, it might rapidly come to pass, assuming competition in the professions and the right to undersell, that professional wages would fall to the level of common day labor. This is indeed a commonplace, well illustrated in modern civilized countries by the fall of wages of clerical labor, once highly paid, to the level of manual low-skilled work. But, though this is constantly before us, we are slow to recognize what it means. Skilled labor only gets a higher price for the same quantity of effort than unskilled labor by virtue of the fact that at various points the element of skill creates a monopoly for its owner, so as to place him in the position of an A from whom B is compelled to buy what he needs, or in the position, superior still, of an A from whom two B's seek to buy. If his skill as a commodity were absolutely necessary to one or both of his would-be purchasers, he would wield the full power which A held in the first illustration. But his monopoly is generally qualified in one of

two ways which will receive closer attention later on,—by the fact (1) that there are other competitors, but less conveniently placed; (2) that the would-be purchaser can either dispense with the commodity or replace it by an inferior substitute.

It is, then, not the quality of the skill, but the rareness, which gives the economic advantage. Even the term "rareness" is misleading; for rareness has no power to raise value unless it assumes a position of monopoly at certain points in the market, unless it is at various points the *only* commodity of the kind directly available. A loose conception of the *modus operandi* of those favorite terms "supply" and "demand" is responsible for the failure to grasp this real nature of value-change. Using the term "demand" in the only sense in which it can be properly correlated to supply, to express money actually offered, it is, of course, true that the only direct cause of price-change will be a change in the quantitative relation of supply and demand. But, if we ask ourselves how a restriction in supply raises price, we shall see that it is only by placing all or some of the portions of the restricted supply in a position which gives the would-be purchaser no choice between this and some other portion, or induces in him a fear lest there should be no other portion equally available; such a fear of monopoly, in proportion to its intensity, acting in the same way as actual monopoly.

This, which is generally recognized as the mode by which fluctuations in price are produced, should also be recognized as the sole explanation of the more stable differences in value between the same quantities of different kinds of labor. The gradation of wages which marks different degrees of skill of labor is entirely due to and dependent on and measured by the gradation of the pressure of monopoly at the several points. Diminish this pressure in the case of any skilled work, so as to yield a

greater option of purchase to the average purchaser, and the price descends towards the level of cost of production. Increase the pressure, and the price rises towards the limit imposed by the absolute utility of the commodity in question. Quality or skill of labor produces its effect on price entirely because of the operations of social causes independent of the owner of that skilled labor.

Now let us turn to corollary *b*, relating to the influence of utility on price and value.

Where effective freedom of competition exists,—that is, where every one who wishes to buy an article has perfect security of the existence of two competing owners equally willing to supply it,—the absolute utility of the article to the would-be purchaser has obviously no influence upon the price he pays. He will obtain the article at a price representing the "expenses of production"; and, if the labor of which it is composed were subject to free competition, the "expenses of production" would measure the quantity of general labor put into it. But where this security of option, this perfect freedom of competition, does not exist, the element of utility exerts an appreciable influence on price. But this influence cannot, any more than in the case of skill, be regarded as due to a quality inherent even temporarily in the article whose price it raises. A starving man entering the nearest baker's shop might, if the baker knows his power, be charged a high price for the loaf he buys; and it might be urged that the power which enabled the baker to exact this high price was a quality of special utility bestowed upon the particular loaf that was sold by the absolute need of the purchaser. Thus it is that utility comes often to be regarded as an attribute of a commodity which may raise its value. Looked at, however, more closely, it will appear that this utility which seems to enhance the value of the loaf is not an attribute of that or of any loaf, but depends upon and expresses the relation between that loaf and the nearest available loaf or

other form of food which can be purchased from another competing vendor. The utility which enables our monopolist baker to charge an excessive price for the loaf is measured not by the absolute need of the starving man for a loaf, but by the difficulty the man will have in going to another more distant shop or in obtaining from elsewhere some other kind of food. The degree of urgency of the man's need will be, of course, one determinant of the measure of difficulty involved in seeking other food, and will thus affect the quantity of utility in the loaf which is held to determine its high price. But, except in the most extreme cases, the principal determinant of the quality of utility said to be existent in the loaf, or in any other commodity purchased under terms of restricted competition, is the position or availability of other supplies. That is to say, in most cases where absolute utility figures as an element in determining price, that utility is itself resolvable into terms of monopoly, and merely represents the difficulty involved in securing option of purchase. In a word, it is not the utility of the loaf, but the degree of monopoly possessed by the baker, which enables him to take a high price. Let the hungry man know of another baker in a neighboring village, and the economic power of the first baker is limited by the difficulty of reaching the other baker. Let other food less desirable than bread be on sale within the same village, and his economic power is limited by the qualitative advantage attaching to bread as compared with the other food. Bring the other baker into the same village or raise the desirability of the other food to that of bread, and the whole economic power of our baker is seen to have rested upon degree of monopoly, and to have disappeared with freedom of competition. The inherent utility attaching to certain articles of consumption which are styled necessaries is thus seen to have no direct influence as a determinant of values. The need of a particular article or class of articles for consumption

does not determine the quantity of monopolic power or the extra price which can be got by a monopolist: what does determine is the extent of the monopoly,— that is, the difficulty of bringing some other portion of supply into effective competition with that held by the monopolist.

Having shown that in a state of free competition exchange will take place by equation of different embodiments of a common quality of effort, and that every departure from this rule, as in the case where special skill or urgent need gives to any commodity a higher value, implies a restriction of competition,— that is, a degree of monopoly,— we are enabled to reach a general law of price-movement, the brief and simple expression of which is that *the price of an article measures the importance to the purchaser of obtaining that particular article.* Whatever considerations seem to affect the price a person pays for an article, the skill of the labor contained in it, or the urgency of the need, or the limitation of supply, affect the price of each particular article only by making it more important for the particular purchaser to get it.

But, it will be urged, how does this square with the theory that marginal utility measures price? A hungry man receives a sum of money, enters a baker's shop, and buys ten loaves of bread for immediate and future consumption. It is surely more important for him to obtain the first loaf than the tenth, yet he pays the same price for each. Possibly, if others were in the same case, he might pay even a higher price for the tenth than for the first.

The answer is that, though it is more important for him to get bread when he is on the point of purchasing the first loaf than when he is on the point of purchasing the tenth, it is not more important for him to get the particular loaf he designs to buy. So long as he is assured of the existence of a competing supply, the urgency of his personal need for bread has no power to give importance to the need for a particular loaf. This distinction between

bread in general and a particular loaf is no quibble, but a distinction of the first practical importance. In supposing that the hungry man paid the same price for the first as for the tenth loaf, we assumed a genuine competition for custom among bakers. If the man entered a village where there was a single baker who knew his case, this baker would be able to get from him a higher price for the first loaf than for the second, and the price would descend with each loaf he bought until it fell to the ordinary price of the place. For in this case the importance not merely of obtaining bread, but of obtaining the particular loaf offered for sale, would descend with each purchase. Moreover, the size of the monopolist baker's stock would have no effect in determining the prices of the various loaves. But where the buyer was assured of the competition of two bakers, though the aggregate supply might be no greater than before, the presence of free choice would place the first purchase on a level with the tenth so far as the importance attaching to any particular loaf was concerned. Assuming that, although general competition between two bakers was present, owing to a temporary reduction in supply, the price of the tenth loaf was higher than of the first, it would signify that, along with a declining importance attaching to bread, there was an increasing importance attaching to each individual loaf, owing to the fact that the general competition between the two bakers was, in consequence of a general restriction of supply, not operative in securing free competition of two competing loaves for every would-be purchaser during the last period of purchase.

Thus, given a freely competing supply, the importance attaching to each general article and its price will be unaffected by the diminishing importance attaching to the commodity in general. Any increase in price will be directly due to the increased importance of obtaining the several articles, and will be due to such restriction of

supply as, applied to particular cases, placed the seller in a position of monopoly.

The statement that the importance of each general article to the purchaser measures its price reconciles the two sometimes conflicting influences upon price attributed respectively to condition of supply and demand, and utility. Each of these acts by increasing or diminishing the importance of a particular article to a particular person. Where the need for bread stands firm, a shrinkage in supply will increase the importance of each particular loaf to a would-be purchaser. Where the need for bread is more urgent,—that is, the utility of bread greater,—monopoly prices can be raised.

This general law of price is, of course, in no contradiction to the statement that the price of a commodity measures its final or marginal utility, the utility of that which the purchaser is last induced to buy, and that the earlier purchases yield a consumer's rent. But though the importance of getting a tenth loaf, and its utility after it is got, are much less than is the case with a first loaf, the importance of getting *the* particular tenth loaf is as great as that of getting *the* first one, and therefore the price is the same. The need or utility is only a condition of an act of purchase; and, though under given conditions of supply and demand it may be said to determine the number of purchases, it can never be rightly said to *determine* the price where there exists competition. Final utility measures price, but does not in any way determine it. What determines the price of a particular article is its importance to the purchaser: what determines the normal price of a class of articles is the average importance of each to the average purchaser. This average importance would in a free competitive society depend entirely on the quantity of common labor power bestowed on the article. In an actual commercial society there will be added to this primary cost of production a number of monopoly rents,

measuring the various restrictions in supply which at different stages in production have enabled various classes of producers to raise the "expenses of production" above the limit indicated by natural "cost of production."

The advantage of this mode of measurement is that it shows us, under the vague term "supply and demand," whose fluctuations are supposed to be responsible for price-changes, the real agent — economic monopoly — in its Protean shapes. When this is clearly grasped, it will be seen that the same principle is responsible, not only for the high prices of agricultural produce and the high rents drawn by owners of natural monopolies, for the enormous prices and profits of successful corners and trusts, for the abnormally high pay given for certain kinds of labor, but for every change, normal or market or incidental, in the price of a commodity. Every rise of price, whether individual, local, or general, is due to such a change in the relation of supply to demand at the previous price as implied an increased probability of any would-be purchaser finding himself faced by a monopolist who would be able to screw up the price to a point just below that which would bring a competitor into the field and restore the element of option to the purchaser. Restriction in supply can only operate to cause a change in price by producing a condition of actual monopoly at various points in the market.

So far, we have dealt with the price of commodities sold to consumers. But it will be obvious that the monopoly element in the price of these is merely an amalgam of monopoly prices of the use of the requisites of production. It is to these latter that we must return for an explanation of the origin of monopoly in prices.

Consideration of the many different uses to which a piece of land may be put requires a restatement of the Ricardian law of rent. If in a community there were but a single use of land,— to grow wheat,— it is evident that

the rent fetched by any piece of land would measure the superior wheat-growing quality of that land as compared with the worst land at the margin of cultivation, and that rent could not figure in the price of wheat. But where there are many uses for land, and all land is not equally well suited to each use, it will be evident that the worst land employed for a particular use may be land paying a rent. The simplest case is of course that of town lands, where the land at the margin of employment for town purposes is not no-rent land, but land commanding high agricultural rent. This rent paid at the margin of employment enters into town prices, and forms an element of monopoly in the "expenses of production" of manufactured goods. It will be equally evident that within the town, where a central position is essential for a special business, land at the margin of employment for this purpose will pay a high town rent, and this rent will enter into price. So with each special determination of the use of land a specific rent is added, the rent at the margin of cultivation rising in each case. What applies to town uses applies also to the agricultural uses of land. The worst land employed in growing hops or vines may yield a rent, provided that it is above the margin of employment for wheat-growing or other common agricultural use. The worst land employed for market gardens yields a rent which figures in the price of vegetables.

Thus we get the idea of a number of specific rents for land which figure in the prices of commodities and which cannot be knocked off by the higgling of the market. If we apply the same consideration to the other requisites of production, the prices of the use of which are imbedded in the market prices of commodities, we shall get the same results.

Corresponding to the no-rent agricultural land is the common unskilled labor which commands a bare subsistence wage. In order to bring the three requisites of pro-

duction into line, this bare subsistence wage might well be regarded separately, and even named separately, from the higher wages paid for more fortunately situated labor. The bare wage paid to maintain the daily labor power of the worker and to enable him to reproduce and rear his successor corresponds with tolerable accuracy to the money spent in replacing the wear and tear of machinery and other forms of plant. As these necessary business expenses are not reckoned under profit, so it is reasonable that the bare subsistence wage should be carefully separated from any superior wage or profit which may come to labor. Or, taking the third requisite of product, land, subsistence wages correspond to that replacement which either Nature herself or the art of man makes to the exhausted soil. Nature does this without money and without price, but the artificial restoration effected by man corresponds precisely to the bare subsistence wage of labor. If the food and clothing necessary to maintain labor in mere working efficiency be regarded as wages, and these wages are held to enter into price, so it may be correctly argued that the money expended in replacing the wear and tear of machinery figures in price, though it is not counted as profit; for, if machinery did not wear or tear, or if Nature replaced such waste, as in the case of land, prices would certainly be lower to a corresponding extent. Or, if the term "wages" were kept to denote this replacement of the wear and tear of labor, the application of the term "rent" to all higher payments would make the analogy with land complete.* For it would then be speedily recognized that special forms of either skill or opportunity in labor establish specific grades of labor, which draw specific rents of labor, just as fertility conjoined with social demand for special kinds of produce

* The analogy in the working of the three factors in production, obscured by common inconsistent economic terminology, is discussed by the present writer in a paper on "The Law of the Three Rents," in this *Journal*, April, 1891.

establishes specific grades of land with special rents. So also, just as mere fertility or productiveness has no power enabling land to get a specific rent unless there is a social demand for the particular produce to which the land is specially adapted, so in labor power a natural aptitude only draws a specific rent on condition that there is a social demand for its use. Just as at a given time we might grade the land of a country like England from the poorest pasture land upwards by steps to the most valuable species of town lands, with a number of specific rents obtainable by the worst land in use for each several higher purpose, so we might grade the labor from common unskilled manual labor up to the most skilled professional intellectual labor, each earning a specific rent of labor for the worst individual of that species in full actual employment. So a mason will earn a specific rent over the wages of the unskilled laborer, which may be reckoned from the earnings of the worst mason in regular employment, just as the rent of hop land or city building land can be reckoned from the worst land in use for these purposes. The engraver in regular work will get a further specific rent over and above that of the mason: the surgeon, the barrister, will obtain still further specific rents. There are a number of grades of labor drawing specific rents; and each of these rents, as in the case of land, enters into the expenses of production figuring in price. The fact that there are many barristers and surgeons who earn much less in a year than the average stone-mason or engraver is nothing to the point. For the work they do they receive a higher rate of pay. In order to be able to grade the rents of labor by the annual return, as in the case of land, we should of course be obliged to assume a constant employment of labor. The greater irregularity in the employment of labor than of land, however regrettable, has no force to abate the right application of this theory of specific rents. The rents of the various species of labor are,

of course, by no means absolutely stable. They are always fluctuating, as are the specific rents of different kinds of land, with changes in the public demand as compared with the available supply. The changes in the relative values of different species of land in the growth of a nation, to which economists have drawn so great attention, are equally discernible in the case of species of labor. But, taking a given country at a given time, we find grades of labor drawing specific rents, each of which figures at the margin of employment for a particular use, and is maintained by the pressure of monopoly at the several points in the market.

If it were always as easy for any one in need of surgical aid to find two equally competent surgeons, willing to undertake the work and to underbid each other, as it would be to find two porters to carry a parcel through the streets, the price of surgical aid would be the same as the price of porterage, and the knowledge and skill required for surgery would have no power to exact wages higher than measured by the actual exertion or sacrifice involved at the time in the work to be performed. Specific rents of labor, as of land, are maintained exclusively by the force of monopoly, and vary with any change in social demand or supply which affects that force.

The treatment of specific rents of capital is complicated by various circumstances. Specific rents of land are liable to be reckoned among profit or rent of capital, as in the case of railways and canals. So, too, specific rents of labor or ability are often merged with rents of capital, so as to be indistinguishable, as in most private and some joint-stock businesses. But it will be admitted that there are certain species of employment of capital which, apart both from considerations of land values and of ability of management, are able to yield specially high rates of interest. English banks yield an average interest upon capital of about six per cent., gas-works yield to their

original shareholders some eight per cent. There are many employments which are exempted from the full force of trade competition, and which pay to their original shareholders an interest far higher than what is required to procure the use of capital in the market. It is, of course, difficult to show in the case of any individual business that a high return on capital is not due either to skill of management, special risks, or to some stroke of individual good fortune. But, when we see the advantage common to whole classes of business, we are compelled to admit that there are qualities in the investment of capital which correspond to the degrees of special use in land or in labor, and which can command a specific rent or interest over and above the common rent of (say) three per cent., which is sufficient to induce the application of capital.

In the case of investments of capital, the distinction is undoubtedly one more difficult of application than in the case of the other requisites, partly from the difficulty of regarding capital as distinct from skill of management, and partly from the more complex and rapid character of the fluctuation in the values of respective species of investment. The following, however, may be taken as a brief statement of a few of the leading qualities which in capital correspond to fertility or geographical position of land and to skill in labor, and which enable certain pieces of capital to draw a specific rent: (*a*) Certain economies in the use of capital which favor large masses of capital as compared with small, or (*b*) which secure for them a monopoly of certain employments; such are banks, large loans, and other speculations. (*c*) Professional, class, or other social opportunities, (1) giving capital in possession great advantages over capital seeking investment; (2) giving capital attached to social position, local environment, skill, nationality, its certain advantages. (*d*) State or municipal monopoly or aid. The first two

of these, alone or with the aid of (*c*) and (*d*), may raise the specific rent to a rent of monopoly measured only by the absolute need of consumers, as in case of certain trusts or corners.

We are now able to bring the three requisites of production into line in respect of specific rents. There are certain qualities of fertility or position or appearance in land, of skill or opportunity in labor, of size, character, or artificial aid in capital, which give special kinds of land, labor, capital, special aptitude for special purposes, enabling their owners to draw specific rents in addition to the ordinary rent at the margin of employment of common land, labor, or capital. In each case, this special rent is a monopoly rent, attributable to the fact that a limited supply gives the owner a monopolic power in dealing with a would-be purchaser.

The specific rent in every case, though normal, is subject to fluctuations. In land, improvements in agriculture, change in quantity of demand for special commodities, opening up of new lands, growth of population or other social changes, political changes, may effect gradual or sudden changes in the monopoly values of special kinds of land. In labor, spread of technical or higher education, change in social estimates regarding respectability of work, mobility of labor, organization, may shift specific rents of ability. In capital, growth of joint stock or other corporative movements, mobility of capital, breaking down of class or national barriers, improvements in the arts of manufacture, political and social changes, are continually operating to change specific rents.

In a word, these qualities in land, capital, labor, which secure specific rent, are not, as rent-producing factors, inherent or stable. Though the skill of a physician will always differ from that of a writing clerk or a hodman, that difference of quality is no security that the difference

in value of the kinds of work shall continue. So, too, in regard to the different kinds of land and occupations of capital. Inherent as these differences may seem, this inherence is no security for a continuance of the present quantitative relation between their values. The history of the evolution of industry is constantly engaged in noting the changes in the specific rents of various kinds of the requisites of production. Some of these changes are slow and slight, others are rapid and large, but there is incessant movement. The wants and ways of man determine values. So far as these endure or are slow to change, values endure or slowly change. When man changes rapidly, so do the values related to his wants and ways. The qualification of the Ricardian law of rent which Carey introduced, by pointing out the fluctuating relation of different lands with the growth of a nation, applies in the application of this same law of rent to capital and labor. Just as the respective value of different pieces of land at the order in which they are called into cultivation at the settlement of a new country, is no indication or guarantee of the respective value of these pieces when the whole country is settled and densely populated, so it is with the different kinds of capital and labor. Various social and economic forces are always at work silently shifting the relative value of the different forms of capital and labor power.

The element of time, as Professor Marshall admits, is largely responsible for the difficulty of most economic problems. So here in regard to prices. Economists have come to look upon the enduring or slowly changing differences of value between high-skilled and low-skilled labor, between various qualities and uses of land, as radically distinct from the more rapidly fluctuating differences in market values. When we recognize that the former just as the latter are due to restrictions of supply which are effective by establishment of monopoly, the notion of a

generic difference between normal prices and market prices will wholly disappear. Closer examination will reveal a fairly even gradation of degrees of endurance of monopoly in respect to different objects of sale. Everywhere change and the degrees and rates of change are of infinite variety, and every wave of change is made up of smaller waves, each of the latter being likewise subject to smaller fluctuations still. But these changes, great or small, are all due directly to a changing pressure of monopoly, acting through restriction or expansion of supply in relation to demand.

In every case of the use of a requisite of production there is the generic rent,—the inducement to the holder to apply the land, capital, or labor he holds to the production of wealth. In the case of land, this generic or marginal rent stands at zero, or, strictly speaking, the lowest point above zero, because the smallest rent will induce the owner of land to allow its use rather than allow it to be idle. In the case of capital or labor, this generic or marginal rent must, if we retain the ordinary use of terms, be a high, even though fluctuating quantity, necessary in the case of capital to overcome the tendency to immediate consumption of owned wealth, and to provide for the continuity of this abstinence; in the case of labor, to overcome inertia and to provide a minimum subsistence of labor during the continued exertion of labor power. Thus the use of the common quality of land may be obtained for a nominal rent, that of the common quality of capital for (say) three per cent., that of the common quality of labor for (say) fifteen shillings. Town land, bank capital, managing labor, obtain, in addition to this generic rent, a specific rent, required to induce under conditions of monopolic supply the special application of a requisite of production. It will be evident that within each of the broader species of requisites which draws a specific rent there are sub-species which draw a higher sub-specific

rent, figuring in the price of those commodities whose production it is required to induce, just as the lower specific rent of town land or banking figures in the price of town houses or bank accommodations. Indeed, this refinement of subdivision may be carried to any extent. Wherever there is a specific difference in the character of land, labor, or capital, which limits the quantity available for specific use, a special rent is added to the nominal rent of land, the three per cent. of capital, and the fifteen shilling price of labor, and forms a special element in the price of the commodity into which it enters.

It is only when, having carried specification to its highest degree, we come to deal with differences of individuals within the same species, that we reach an element which does not enter into price. As the price of each individual commodity in a species measures the expenses of production of that which is produced under the least favorable specific advantages, the superior individual requisites which enter into the production of that species command an individual rent of monopoly which is not represented in the price. This element of individual value within each species or sub-species must be carefully distinguished from the element of specific value. Specific values and their fluctuations are seen to be due entirely to social causes. But, given a specific value, the individual value is independent of social action, being inherent in the individual. If a particular species of land or labor is in use, the relative value of the several portions of that species is not determined by social, but by what may for convenience be called inherent natural causes.

The mistake of the old economic theorem that rent did not enter into price consisted in ignoring specific differences and regarding all differences as individual. Thus each piece of land was compared with pasture land at the margin of cultivation; and, since the latter paid no rent, it was concluded that rent did not enter into agricultural

prices. But, in a country where the worst pasture land in use pays no rent, it is likely enough that the worst corn land in use pays a rent; the worst hop lands or fruit orchards will certainly pay a higher rent; the worst market garden a higher rent still. Assuming that the worst market garden was capable of use as an orchard, a corn-field, and pasture, its rent will evidently include the specific rents of their inferior uses, all of which will thus figure in the price of market-garden produce. Nor is this all. Not only will the specific rent of an orchard, a corn-field, a pasture field, figure in the rent and price of a market garden and its produce, but this will form a minimum. The individual rent which the land would be able to draw for its individual advantages in the capacity of orchard will enter into the specific rent of the market garden. That is to say, if the worst market garden were a good quality of orchard, capable of bringing in to its owner not only the specific orchard rent which figured in price, but a rent representing its individual superiority over the worst orchard, this individual orchard rent would be added to the specific orchard rent to make the specific market-garden rent. Assuming there is in a given piece of land a pasture use, a corn-land use, an orchard use, a market-garden use, the rent for each use will include the specific rent of the lower use, plus the individual rent of the lower use, plus the individual rent of the higher use, the two former figuring in the price of the produce of the higher use.

What applies here to land applies precisely in the same manner to capital and labor. Starting from a minimum subsistence wage and interest, each higher special use brings a specific rent based on the lower specific rent plus the lower individual rent; and this higher specific rent will figure in price.

Thus we reach a theory of price capable of clear statement. The foundation of price is cost of production,

which measures the quality of common effort. To this are added a number of specific and subspecific rents of monopoly, paid for the use of various special qualities of land, labor, capital, at various points in the process of production. These specific and subspecific rents, added to the cost of production, make up what is called the expenses of production. The cost of production measures the quality of individual effort involved in production. The specific and subspecific rents measure the effect of social forces in assigning special social values to special qualities or kinds of each requisite of production. The difference between cost of production and expenses of production, the element of specific rent, is a value due entirely to the action of society. It is created by society, and is of right a social property, even as that cost of production which represents the effort of the individual is individual property. This claim of society to a property in the specific rents at present enjoyed by individuals is entirely independent of the question of the claim of the community to the ownership of the natural resources, or of the further question whether the community could or should, by the substitution of social for individual abstinence, obtain the ownership and use of the capital required for forwarding production.

J. A. HOBSON.